BUILDER

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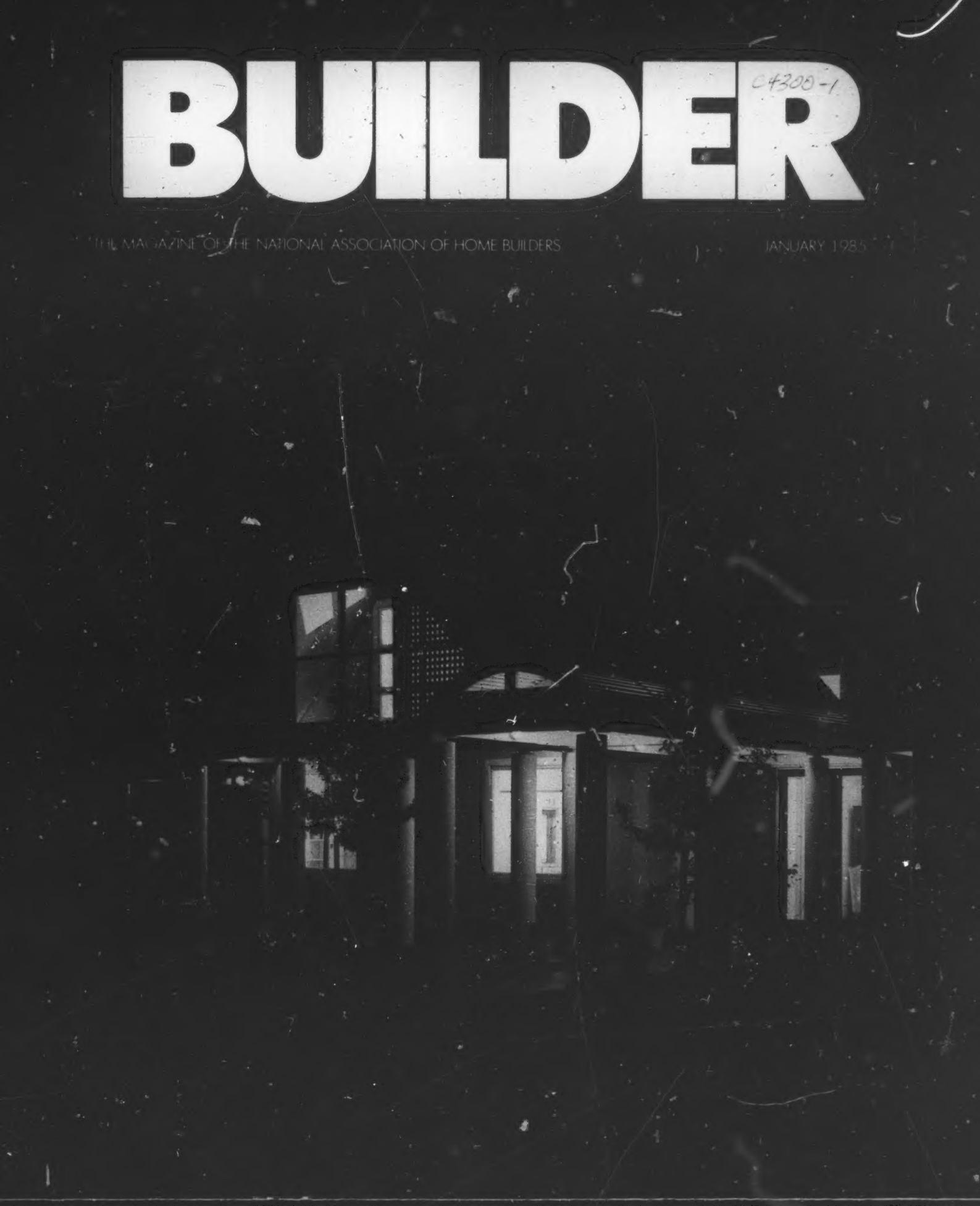
THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

JANUARY 1985



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A special project of BUILDER, *Good Housekeeping* and NCHI, The New American Home is an idea house that boldly updates traditional ideas about housing design.
(Cover: The New American Home '85, Houston. Photo: Copyright 1984 Greg Hursley)

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Pinched for profits, many lenders are becoming directly involved in real estate development. And a lot of builders don't like it.

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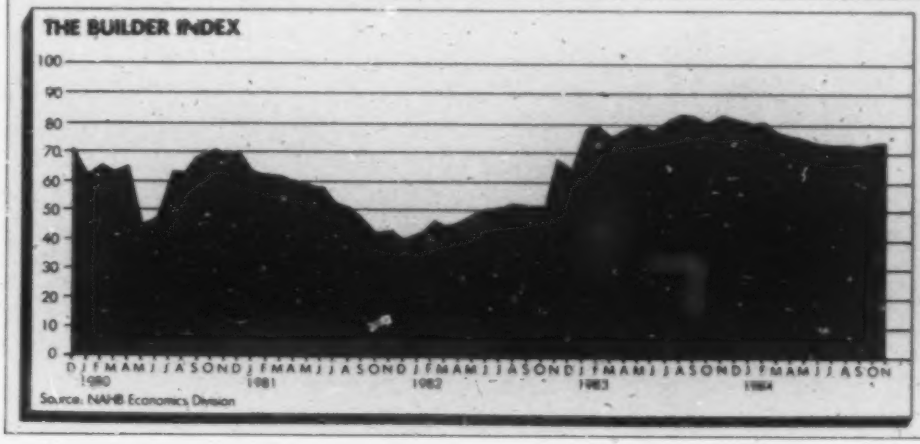
The stories of six builders who started with nothing and have become multimillionaire builder-businessmen and industry leaders.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION


THE BUILDER INDEX
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1980
1981
1982
1983
1984
Source: NAHB Economics Division

The BUILDER Index rose slightly in November to 74.83, reflecting lower interest rates and higher building permit activity.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Good and Bad News

Michael Sumichrast
NAHB chief economist, Washington, D.C.

Builders' spirits move counter to interest rates. They always have and still do, which explains why, for the first time since last spring, industry optimism is building. Interest rates have dropped and most financial analysts, plus President Reagan and Treasury Secretary Regan, believe rates won't go back up again until at least mid-year.

That is good news. But the long-term outlook is not nearly as rosy. A year from today rates probably will be 2 to 3 percentage points higher than they are now.

What all of this means is a slightly improved housing outlook for the first half of the year, but then a sharp decline in 1986. NAHB's economics division base forecast for 1986 calls for housing starts to drop to 1.2 million units from the 1.5 million units forecast for 1985. However, a rebound will follow and by 1988 starts will reach the highest annual rate for the decade with 1.8 million units.

This long-range forecast is based on the following assumptions. Real GNP growth (nominal growth minus inflation) will drop from 5.3 percent in 1984 to 2.9 percent this year. In 1986 real growth will decline to a minus 1.5 percent, then in 1987 increase to 1 percent and move up to 4.3 percent in 1988.

The unemployment rate will remain about the same this year, but will inch upward, reaching 8.9 percent in 1987. Real disposable income increases will drop to 2.5 percent this year and another 0.5 percent in 1986, before bouncing back to 4 percent in 1988.

The final assumption calls for moderate inflation. Inflation should increase slightly from 3.1 percent last year to 4.3 percent this year and eventually reach 6.5 percent in 1988.

In short we expect a recession in 1986. The reason for the economic decline will be the inability of the government to do something fundamental about the deficit. Government's demand for money will start to crowd out private borrowers sometime next year. As a result interest rates will rise, and housing starts will fall.

Even if the deficit is reduced, few feel that the reduction will be sufficient to make much difference. The so-called "hard-core" budget increase this year will be about $60 billion. The increase

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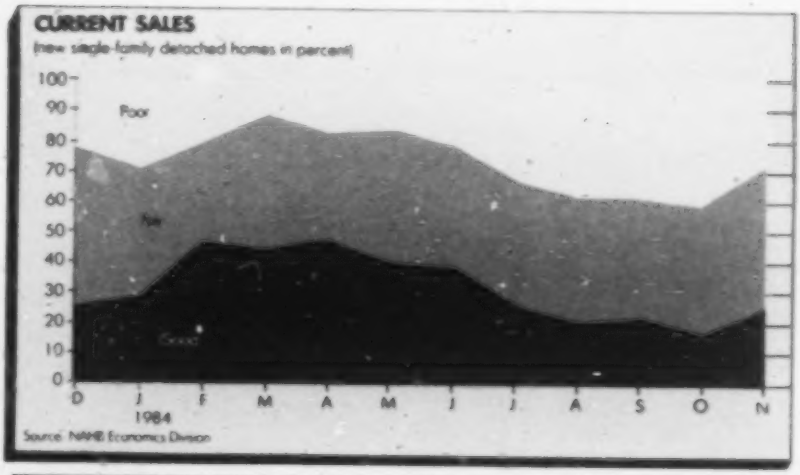
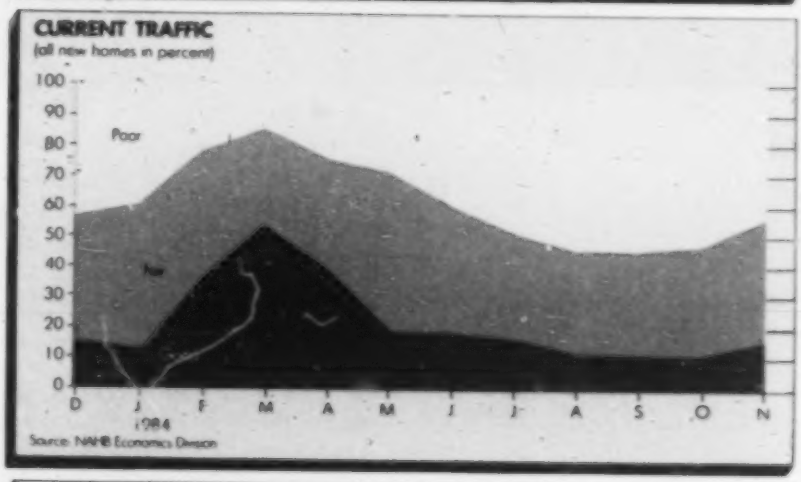
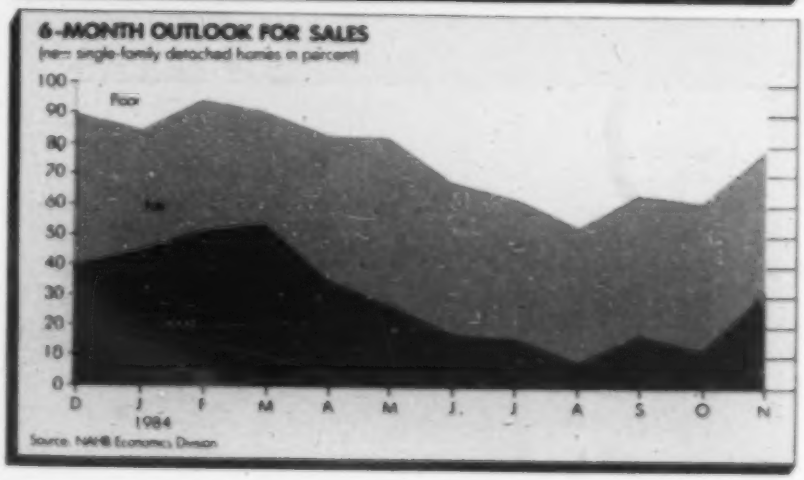






NEW-FOUND CHEER

What a difference a month can make. No doubt because of the continued decline in mortgage interest rates, responses to the November BUILDER Poll showed evidence of a new-found optimism among builders. That reversed the dreary outlook of a month before.

In fact for the first time since last March the poll saw builders reporting improvement in all three key indicators of housing activity: traffic of prospective buyers, current single-family home sales and builders' six-month outlook.

Traffic (middle chart) showed the least improvement, but then it had declined much less than sales since last spring. As for sales (top chart), there was solid improvement. In November 73 percent of the respondents said that single-family home sales were good or fair, compared with only 59 percent in October.

The six-month outlook (bottom chart) improved even more dramatically, with the number of builders expecting good sales over the next six months almost tripling and the number expecting poor sales declining by about a half.

According to the NAHB economics division, which conducts the poll, it's too soon to either take the November results as the start of a trend or dismiss them as a fluke. Or as one builder from Wilkes-Barre, Pa., put it, "an improved economy, lower interest rates and some response to the federal deficit by the president should guarantee a continued strong housing market."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

HIGHER MAXIMUMS

Effective January 1, maximum mortgage amounts on home loans purchased by Fannie Mae and Freddie Mac will go up slightly. The new limits: $115,300 for single-family homes (up from $114,000); $147,500 for two-family homes (up from $145,800); $178,200 for three-family homes (up from $176,100); and $221,500 for four-family homes (up from $218,900). The limits are adjusted each year to reflect increases in national housing prices. "The modest increase in this year's limit reflects the fact that house prices were relatively stable over the past year," commented Ken Thygerson, president and chief executive officer of Freddie Mac.

POSITIVE PREDICTION

Although the economy continued to slow in the fourth quarter of 1984, moderate growth is predicted for 1985, according to the latest member survey by the National Association of Business Economists. The business economists expect real GNP to grow 3% in the next 12 months. That's about average for the third year of a business expansion but well below the 6.3% growth during 1983 and the 5.7% GNP growth expected in 1984.

ARMs THAT RATE

Fannie Mae has standardized the types of ARMs with interest rate caps that it will buy. Each of the three new rate-capped ARMs has a one-year adjustment period and a lifetime rate increase cap of 5%. Two of the ARMs have annual interest increase caps of 1 and 2% respectively. The third has an annual payment increase cap of 7.5%. The new ARMs are assumable, can include graduated payments over the first three years and can be converted to fixed-rate mortgages in the third, fourth or fifth year.

RESALES HOLD STEADY

After declining for five straight months, existing single-family home sales leveled off in October, the National Association of Realtors (NAR) reported. The annualized rate of resales in October was 2.67 million units, the same as in September and only 1.8% lower than resales in October 1983. The median sales price of existing single-family homes in October was $72,300, only 3.6% higher than a year earlier. NAR said the stabilized resale rate was due to modest declines in mortgage rates and predicted that real interest rates (adjusted for inflation) would continue to recede at least through the second quarter of 1986.

NOTHING SPECTACULAR

S&Ls and savings banks together were not expected to do more than break even in 1984, according to the National Council of Savings Institutions. Earnings at savings institutions were positive for the first half of 1984, but roughly half their 1983 levels. The council also reported that savings deposits at thrifts totaled roughly $900 billion by mid-1984. That was 7% higher than total savings at the end of 1983, but growth was far less than the 19% surge from 1982 to 1983 when the industry benefited from deregulated interest rates on deposits.

SYNDICATIONS SOARING

Sales of public real estate syndications topped the $1 billion mark in the third quarter of 1984 for the fourth straight three-month period, reports Stephen Roulac & Co., a real estate advisory firm. However, the company expects activity to diminish somewhat because investments in real estate syndications are becoming less tax-sheltered and because the industry is maturing.

FOREIGN EXCHANGE

Fannie Mae has started borrowing money in the Euromarket, as it was recently permitted to do, and that could mean more money for housing. It also means lower interest rates, at least for Fannie Mae, because rates currently are lower overseas than in the U.S.

FHA SAFE FOR NOW

The latest attempt by the Office of Management and Budget (OMB) to curtail federal credit programs—detailed in OMB's Circular A-70—will not affect FHA's mortgage insurance programs, according to Philip Abrams, who resigned recently as under secretary of the Department of Housing and Urban Development. In a speech at the National Association of Realtors convention in November, Abrams said FHA's home loan insurance programs "have never cost the taxpayer anything" and need not be justified. The OMB circular sets three criteria that federal credit programs should meet: They must serve a public purpose, there must be no viable private substitute and they must be actuarily sound.

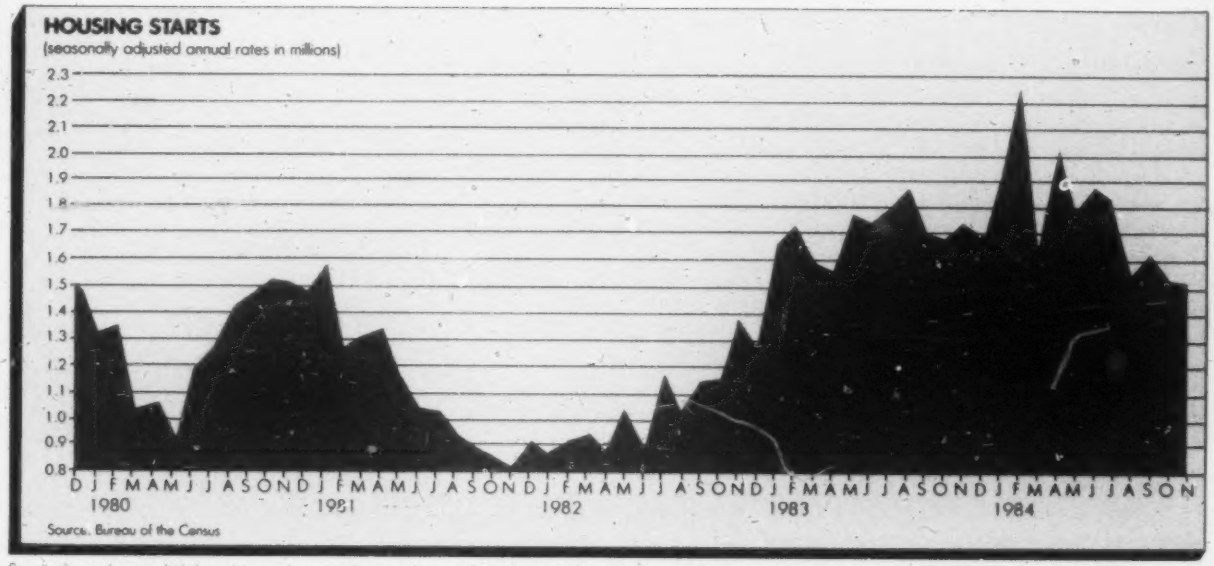
CONTINUED FROM PAGE 11

represents interest paid on the debt and higher defense spending. The budget will push $1 trillion, and receipts will reach at most $800 billion.

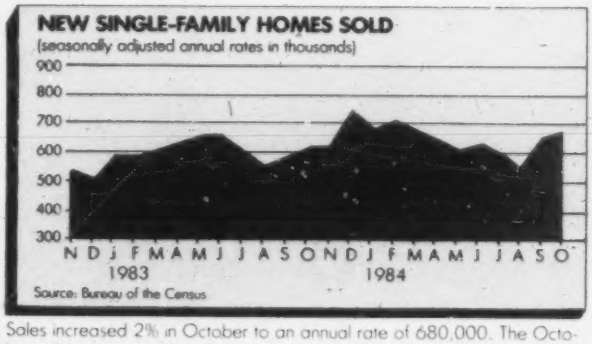
The accompanying graph shows NAHB's housing forecast for 1984 through 1988. The forecast calls for starts to average 1.51 million units annually, or about 10 percent higher than during the period from 1979 through 1983. Single-family starts are expected to increase 7.3 percent and multifamily starts should increase by 14 percent.

Regionally, the Northeast should increase by 29.3 percent; the North Central should decline by 1.8 percent, the South should increase by 10.3 percent and the West should increase by 7.5 percent.

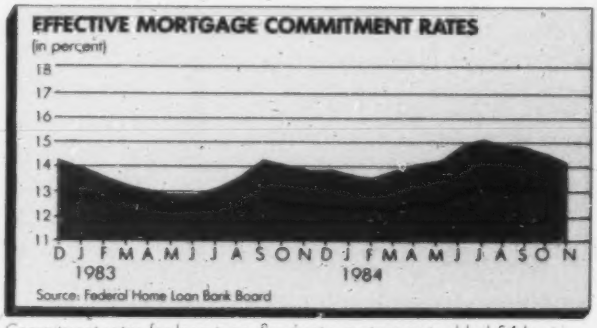
The Northeast's share of total starts should increase to 12 percent from 10.2 percent; the share for the North Central region should decline to 14.3 percent from 16 percent; the South's share should increase to 50.9 percent from 50.5 percent; and the share for the West region should decline slightly to 22.8 percent from 23.2 percent.



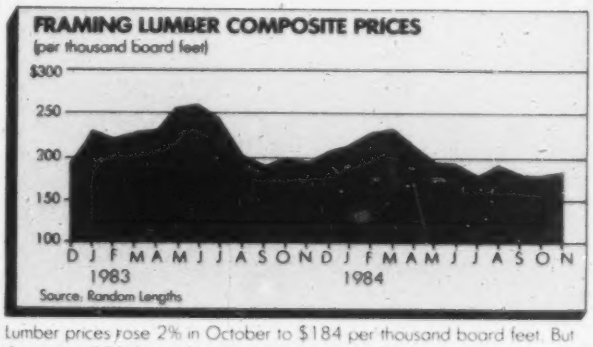
Starts slipped very slightly in November to an annual rate of 1.53 million from an upwardly revised October rate. It was the lowest starts level since December 1982. But November building permits were up, indicating higher starts ahead.



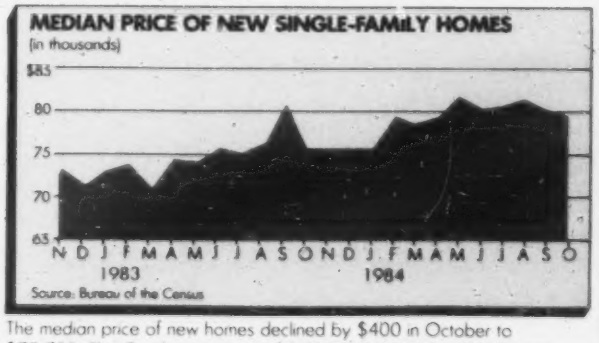
Sales increased 2% in October to an annual rate of 680,000. The October sales rate was 9% higher than a year earlier and the highest since March 1984.



Commitment rates for long-term, fixed-rate mortgages tumbled 54 basis points in November to 14.16%—the lowest rate in seven months. Uncapped adjustable rates fell 38 basis points to 12.69%.



Lumber prices rose 2% in October to $184 per thousand board feet. But that was still 8% lower than the price a year earlier.


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)
$85
80
75
70
65
N D J F M A M J J A S O N D J F M A M J J A S O
1983
1984
Source: Bureau of the Census

The median price of new homes declined by $400 in October to $79,700. The October price was $3,800, or 5%, higher than a year earlier.

ECONOMY

STARTS WILL LEVEL OFF IN THE FIRST QUARTER

Housing starts dropped during the third and fourth quarters of last year, but the decline should level off during the first quarter of this year, according to NAHB's latest Quarterly Metropolitan Housing Starts Forecast.

Dallas-Fort Worth is projected to have the highest number of starts in the first quarter of this year—16,800—even though activity is down nearly a third from the same period last year. Other top 10 cities for starts in the first quarter are, in order, Phoenix, Atlanta, Riverside-San Bernardino, Los Angeles-Long Beach, San Diego, Tampa-St. Petersburg, Houston and Washington, D.C.

Starts in most of those cities, however, will be down from the first quarter of 1984. The only ones showing an increase are Riverside/San Bernardino and San Diego.

"The biggest surprise in the forecast is the strength shown by the top 10 metro areas," commented Michael Sumichrast, NAHB's chief economist.

"But most cities in oil-oriented states, especially Houston, are doing very badly," he added. Starts in Houston are forecast to plunge 48 percent this quarter compared with a year earlier. However, production there is expected to be up from the fourth quarter of 1984.

The forecast, prepared by NAHB's economics division, estimates starts in 95 metropolitan areas throughout the country for the coming quarter.

As shown here, the data includes the number of starts in each area, arranged by region, for each quarter during 1984 and projected starts for the first quarter of 1985. (Figures for the fourth quarter of last year also are projections.) The table also shows the projected percentage change in starts between the first quarter of last year and the first quarter of this year.

According to the forecast, starts nationwide will dip only slightly this quarter to 209,622 units compared with the fourth quarter of last year. But that is down 15.5 percent from the same quarter last year.

That's not a steep drop, according to Sumichrast. "A 15.5 percent decline is about what we expected considering the level of interest rates," he said. "In fact, housing is doing a little better than the nation as a whole."

From first quarter to first quarter, multifamily starts are forecast to fall the most, dropping 20.8 percent to 94,031 units nationwide. At the same time, single-family starts are expected to decline 10.6 percent to 115,591.

The decline from first quarter to first quarter will occur in all four regions with the biggest drops in the South (down 18 percent) and the West (down 15 percent).

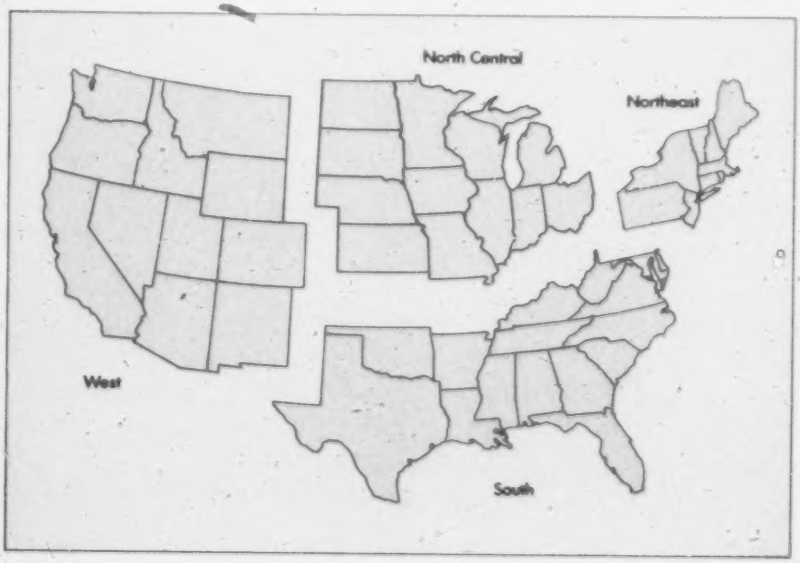
But the picture is brighter when figures for the first quarter of this year are compared with those for the last quarter of 1984. Starts during that period are forecast to climb 10 percent in the West—the only region where starts are expected to rise—and dip only 1 percent in the South due to strong demand.

However, relatively high interest rates are expected to depress starts in the Northeast (down 17 percent) and the North Central (down 14 percent) between the last quarter of 1984 and the first quarter of 1985.

QUARTERLY HOUSING STARTS FORECAST: UNITED STATES TOTAL

1984				1985	
First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
247,940	299,303	257,512	209,949	209,622	−15.5

Source: Copyright National Association of Home Builders



Northeast

In the Northeast starts will slip only 1 percent to 13,316 units from first quarter to first quarter. Boston, Philadelphia, Buffalo, New Brunswick, N.J., and New Haven, Conn., will see starts increase substantially; starts should im-

prove somewhat in Pittsburgh. But activity will fall in New York City, Newark, Nassau-Suffolk, N.Y., Harrisburg, Pa., and Hartford, Conn.

South

The highest number of starts will continue to occur in the South despite an 18 percent drop in that region to 102,445 units. Starts should be healthiest in Florida where increases are forecast for Miami, Fort Lauderdale-Hollywood and Daytona Beach, among others. Texas will continue to suffer. Starts are forecast to plunge 48 percent in Houston and 33 percent in Dallas-Fort Worth. Atlanta, Orlando and New Orleans also will be losers.

North Central

Starts here will remain essentially comotose, slumping 13 percent to a paltry 19,541. Among the victims: Chicago, Columbus, Ohio, Detroit and St. Louis. Some improvement should occur in Minneapolis-St. Paul and in Cincinnati, but in both places starts are expected to be down from the fourth quarter of 1984.

West

Though improving, starts in the West will be down 15 percent from a year earlier. Starts will decline in Phoenix, Los Angeles-Long Beach, Denver-Boulder and Tucson. A strong increase should occur in Riverside-San Bernardino and starts should go up slightly in already strong San Diego.

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: NORTHEAST

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
Northeast region total	13,443	24,258	24,230	15,965	13,316	−0.9
Boston	1,350	2,350	1,950	1,700	1,475	9.3
Buffalo	263	601	410	358	300	14.1
Harrisburg, Pa.	350	425	525	450	300	−14.3
Hartford, Conn.	790	1,260	1,450	885	725	−8.2
Nassau-Suffolk, N.Y.	1,360	2,520	1,455	1,305	1,155	−15.1
Newark, N.J.	864	1,431	1,198	880	500	−42.1
New Brunswick-Perth Amboy-Sayrevl, N.J.	262	1,813	1,860	1,762	538	105.3
New Haven-West Haven, Conn.	530	735	800	775	600	13.2
Somerest County, N.J.	260	320	525	495	295	13.5
New York City	2,910	4,160	3,755	3,045	2,700	−7.2
Philadelphia	2,148	5,453	6,701	1,698	2,278	6.1
Pittsburgh	1,088	1,556	1,375	1,000	1,125	3.4
Rhode Island	750	1,040	1,260	1,030	725	−3.3
Rochester, N.Y.	518	594	966	582	600	15.8

Source: Copyright National Association of Home Builders

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: SOUTH

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
South region total	124,884	140,065	118,174	103,626	102,445	−18.0
Atlanta	12,305	14,900	12,340	11,760	11,100	−9.8
Austin	4,650	5,500	2,600	2,550	3,050	−34.4
Baltimore	3,020	4,320	4,620	3,630	3,070	1.7
Birmingham-Jefferson Co., Ala.	595	699	461	560	500	−16.0
Charleston, S.C.	2,099	2,519	1,449	1,200	1,100	−47.6
Charlotte-Mecklenburg Co., N.C.	1,746	2,001	1,422	2,650	2,050	17.4
Dallas-Fort Worth	24,900	24,200	20,100	13,700	16,800	−32.5
Daytona Beach, Fla.	1,044	1,504	1,534	1,588	1,667	59.7
Delaware	700	963	1,295	700	550	−21.4
El Paso, Tex.	1,400	1,446	739	875	800	−42.9

(continued)

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: SOUTH
(continued)

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
Fort Lauderdale-Hollywood, Fla.	2,441	3,268	4,725	5,060	3,900	59.8
Gainesville, Fla.	768	674	548	500	600	−21.9
Greenville Co., S.C.	796	785	929	337	360	−54.8
Houston	11,080	10,120	5,380	4,300	5,820	−47.5
Jacksonville, Fla.	3,769	3,162	2,760	2,000	1,700	−54.9
Lakeland-Winter Haven, Fla.	732	912	896	930	950	29.8
Little Rock-North Little Rock, Ark.	1,009	1,369	1,009	661	790	−21.7
Memphis	2,250	2,364	1,599	1,400	1,250	−44.4
Miami	2,614	4,101	4,875	5,225	4,850	85.5
Nashville-Davidson Co., Tenn.	2,289	4,112	2,472	1,727	2,250	−1.7
New Orleans	3,542	3,058	2,070	2,050	2,400	−32.2
Norfolk, Portsmouth, Va. Beach, Chesapeake	3,106	3,007	2,989	2,298	2,800	−9.9
Orlando, Fla.	6,090	6,230	5,830	5,810	5,530	−9.2
Raleigh-Durham, N.C.	1,507	1,750	1,930	1,500	1,025	−32.0
Richmond, Va.	1,432	2,602	1,572	1,660	1,835	28.1
Roanoke, Va.	575	525	460	475	635	10.4
San Antonio	4,169	5,105	5,600	4,456	3,750	−10.1
Sarasota-Bradenton, Fla.	2,170	2,100	1,730	2,010	2,150	−0.9
Tallahassee, Fla.	681	759	515	418	441	−35.2
Tampa-St. Petersburg	7,397	7,883	7,411	7,546	7,112	−3.9
Tulsa	2,062	3,014	770	475	410	−80.1
Washington, D.C.	7,614	9,496	8,994	7,000	5,800	−23.8
West Palm Beach-Boca Raton, Fla.	4,332	5,617	6,550	6,575	5,400	24.7

Source: Copyright National Association of Home Builders

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: NORTH CENTRAL

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
North Central region total	22,419	35,179	30,898	22,744	19,541	−12.8
Akron, Ohio	380	805	521	470	300	−21.1
Canton, Ohio	374	574	158	200	200	−46.5
Chicago	4,210	6,815	5,705	4,300	3,250	−22.8
Cincinnati	1,012	1,380	1,800	1,450	1,200	18.6
Cleveland, Ohio	817	1,255	972	401	567	−30.6
Columbus, Ohio	1,870	2,211	1,200	1,000	1,540	−17.6
Dayton, Ohio	250	575	675	550	300	20.0
Detroit	1,761	4,208	2,425	1,900	1,409	−20.0
Evansville, Ind.	306	529	395	250	190	−37.9
Flint, Mich.	85	251	247	150	70	−17.6
Indianapolis	591	1,096	1,918	900	540	−8.6
Kalamazoo, Mich.	200	300	325	275	195	−2.5
Kansas City, Mo.	2,630	3,200	3,570	2,600	2,900	10.3

(continued)

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: NORTH CENTRAL
(continued)

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
Madison, Wis.	715	470	425	425	325	−54.5
Milwaukee	673	961	789	550	520	−22.7
Minneapolis-St. Paul	3,000	5,900	5,300	4,200	3,200	6.7
St. Louis	2,290	3,090	2,880	2,100	2,000	−12.7
Springfield, Ill.	150	133	65	35	60	−60.0
Toledo	282	529	413	350	200	−29.1
Wichita, Kans.	823	897	1,115	638	575	−30.1

Source: Copyright National Association of Home Builders

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: WEST

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
West region total	87,194	99,801	84,210	67,614	74,320	−14.8
Albuquerque	1,736	2,416	1,942	1,206	750	−56.8
Anaheim-Santa Ana-Garden Grove, Calif.	3,835	5,023	4,600	3,542	4,500	17.3
Anchorage	977	1,716	1,299	458	400	−59.1
Bakersfield, Calif.	1,767	1,335	726	1,000	1,170	−33.8
Boise City, Idaho	391	610	361	300	293	−25.1
Colorado Springs, Colo.	2,587	3,452	1,614	1,150	975	−62.3
Denver-Boulder	6,590	8,044	4,982	4,566	5,104	−22.5
Fresno, Calif.	1,197	1,061	1,730	900	600	−49.9
Hawaii	1,100	1,722	1,226	900	500	−54.5
Las Vegas	2,982	1,980	2,433	1,400	1,600	−46.3
Los Angeles-Long Beach	9,433	9,247	8,000	6,320	8,000	−15.2
Modesto, Calif.	700	1,000	600	400	600	−14.3
Oxnard-Simi Valley-Ventura, Calif.	1,246	1,344	1,100	810	1,150	−7.7
Phoenix	16,000	15,700	14,600	13,700	12,700	−20.6
Portland, Ore.	1,098	1,531	1,408	1,650	1,350	23.0
Riverside-San Bernardino-Ontario, Calif.	7,119	10,256	8,500	7,625	9,000	26.4
Sacramento	2,574	2,971	3,092	2,765	2,200	−14.5
Salem, Ore.	114	146	201	187	160	40.4
Salt Lake City-Ogden	2,013	3,921	4,311	1,566	1,573	−21.9
San Diego	7,202	5,760	5,695	4,300	7,500	4.1
San Francisco-Oakland	4,100	5,400	3,200	2,500	4,000	−2.4
San Jose	2,200	1,950	1,550	1,200	1,200	−45.5
Santa Barbara-Santa Maria-Lompoc	641	543	562	600	700	9.2
Santa Rosa, Calif.	750	1,700	1,100	800	900	20.0
Seattle-Everett	3,790	4,270	4,530	3,460	3,600	−5.0
Spokane	246	577	645	210	250	1.6
Stockton, Calif.	406	726	704	899	395	−2.7
Tucson	3,900	4,000	2,900	2,400	2,400	−38.5
Vallejo-Fairfield-Napa, Calif.	500	900	600	600	750	50.0

Source: Copyright National Association of Home Builders

MARKETS

ARMS CUSHION FALL OF RESALES

Higher interest rates pushed existing home sales down during the third quarter of 1984 compared with the same period a year earlier, but adjustable rate mortgages cushioned the fall. In fact, 16 states bucked the downward trend, and saw resales of single-family homes, condominiums and cooperatives increase.

According to the National Association of Realtors (NAR), the nationwide resale pace slowed 2.7 percent from third quarter to third quarter, declining to an annual rate of 2.94 million units.

"The nationwide decline in home resale activity likely would have been much more severe if not for the relatively widespread use of adjustable rate mortgages," said Frank Katusak, NAR's vice president of economics and research. Some 68 percent of all resale loans closed in the third quarter were ARMs compared with 45 percent a year earlier.

STATES WHERE RESALES ROSE
(in annual rates)

State	Number of resales third quarter 1984	Percent increase from third quarter 1983
Alabama	59,800	31.1%
Arizona	63,300	30.2
Delaware	9,400	1.1
Hawaii	6,600	1.5
Maine	23,900	7.2
Maryland	65,300	4.8
Michigan	137,000	7.1
Minnesota	60,300	11.0
Missouri	78,200	3.9
Nebraska	25,500	5.4
Pennsylvania	168,000	4.9
Rhode Island	13,600	78.9
South Carolina	41,900	1.2
Vermont	8,200	9.3
West Virginia	32,900	15.0
Wyoming	6,400	8.5

Source: National Association of Realtors

Resale activity will continue to decline modestly through 1985 because interest rates are expected to remain relatively high, Katusak predicted. But he forecasts a mild upturn in 1986 because rates then should be down some.

California had the highest annual resale rate in the third quarter of 1984 at 353,000 units, but that was down 1.3 percent from a year earlier. Texas was second with 192,500 units, but that, too, was down—by 3.1 percent.

BUSINESS

DO-IT-YOURSELF GUIDE TO GOOD PUBLICITY

It has been said that an inch of good publicity is worth 10 inches of paid advertising. The reason is obvious: When someone reads an article that reflects favorably on you, it carries with it third-party endorsement.

The big question, of course, is how to get that good publicity. That is what the art of public relations (my field) is all about. People have spent decades learning how to do it; what follows is just a short cram course.

First, remember that reporters aren't in business to promote you. They're in business to inform and entertain their audience. You can get good publicity if you give reporters information that is useful to their audience. For example:

- Do home buyers want to know how to get a mortgage, where the bargains are, what to look out for in purchasing, what the tax advantages are of buying rather than renting? Of course they do. Reporters depend on articulate authorities to provide answers to these questions. You could be such an authority.
- Is there a new trend in homes in your town? Perhaps the prices of three-bedroom condos are not climbing as quickly as those of two-bedroom units because families are getting smaller. Perhaps bathrooms are getting larger. Tell your local reporters about it.
- Propose a story to a local or regional real estate publication. There are close to 100 in the United States and Canada and if you have the help of a good local writer you'll have a good opportunity to see your name in print. That article can make an excellent reprint, which you can circulate to potential customers—and to bankers, when you're looking for a loan.
- Announce your sales, your new personnel, your staff promotions, your expanded offices, etc. This won't always produce publicity, but often it will. If you announce several sales at once and that way are able to include a "magic" figure—e.g., $1 million or $2 million—you have a better chance of being written up.
- Write an article for a related trade publication. Bankers, for example, have a great interest in real estate. Is there anything you can tell them? We suggested an article by one developer on the effect of overregulation on house prices, and a magazine ran it. Such an article also can be useful as a reprint. The fact that a major national publication uses it lends prestige to your firm.

These are only a few ideas. The next question is how to market these ideas. Send a brief, well-written letter (on your company letterhead—and be sure your telephone number is included) to the real estate editor of the local newspaper, to the news assignment editors of local radio and television stations, to the talk show producers of the local stations and to the editors of the local magazine and neighborhood newspapers. Explain in simple terms why your message can be helpful or interesting to their audiences. Mention your professional credentials.

A step beyond a simple letter is the press release. A well-written press release can gather attention—again, if it says something of interest to the public, rather than merely reciting your company's achievements.

Alternatively, a telephone call may do the trick. If you are calling radio and television people, or an editor on a morning newspaper, it is better to do so before noon; for the editor of an afternoon newspaper, it is better to call after 2 p.m. Before calling, prepare your "pitch" as carefully as you would for a letter. Explain briefly who you are and why you're calling, then ask whether the other party might be in-

CONTINUED ON PAGE 124

Remember the friendly local S&L? Now many larger S&Ls and other lenders are becoming directly involved in real estate development. And builders are worried that this new competition will be less than friendly.

CAROL ANDERSON, NEWS EDITOR

ROLE

Like a lot of builders, George Freelove is worried about S&Ls and banks getting into real estate development. The central Florida builder fears that lenders will undercut him on interest rates, outbid him for land and force him to joint venture as the price of a loan.

Freelove has reason to worry. In recent years S&Ls have become increasingly involved in real estate development through joint ventures with builders, through direct development of land, homes and commercial property by S&L service corporations without an independent builder and through apartment syndications. And the trend is continuing.

"Builders will see more competition from thrifts because legislators and regulators have opened the real estate field to them," said Allan Bortel, who analyzes the thrift industry for the investment firm Shearson/American Express. Thrifts are surging into all aspects of real estate development, Bortel said, in order to improve sagging profits. "They are still hurting from their large portfolios of old, fixed-rate mortgages. Thrifts believe real estate is a good place to make some money because the investment term better matches their short-term deposits."

That view is substantiated by a recent survey of 372 S&Ls throughout the country which found that nearly 60 percent are involved in real estate development, and half of those institutions plan to do more.

"A number of S&Ls have been involved in real estate, aside from mortgage lending, for years," noted Christopher Leinberger, president of Robert Charles Lesser & Co., the Beverly Hills consulting firm that conducted the survey. "But a noticeable trend toward greater involvement has recently become evident."

It's especially evident among large S&Ls—those with more than $750 million in assets. Nearly 90 percent of them are involved in real estate, according to the survey.

Most of the activity is in joint ventures (see charts, pages 196 and 197) followed by direct development, with syndications far behind. Although syndications currently are a small part of the action, that segment is expected to grow the most, the survey found. At the same time S&Ls expect the percentage of projects developed directly by their service corporations to increase slightly. The proportion of joint ventures is expected to fall but joint ventures will remain the largest type of development activity by S&Ls (see chart, page 199).

A majority of both the joint venture and direct development activity (60 percent) is in single-family and condominium for-sale housing, but the survey predicts that S&Ls will expand into commercial and industrial development, first by joint venture and then on their own.

REVERSAL

"It appears that most S&Ls have only put their toes in the water regarding direct development," the survey concluded. But some S&Ls, especially the very large ones in California, have more than just their toes in.

Los Angeles-based Home Savings, the second largest S&L in the country, for example, has been involved in real estate development through its service corporation for a number of years. Currently it is directly developing about half of its 22 real estate projects, and that's up over the last two years, said Charles Cencibaugh, vice president of the Home Savings service corporation.

He expects direct development to grow because "we prefer to do projects ourselves." But Home does joint ventures too, and prefers them in new markets such as Florida where local builders know the territory better.

Another large California S&L, Glendale Federal, also favors direct development. "We're builders," stated J. D. Ostic, assistant vice president and director of acquisitions for the service corporation. The company started doing joint ventures two years ago mainly because it wasn't ready for the housing turnaround.

"But we're not aggressively going after joint ventures," Ostic said. "That's a stopgap until we accumulate enough projects of our own." The service corporation, on its own, has built about 300 to 500 homes each year since the late 1970s. During the last two years it has purchased land on which it intends to build up to 1,300 units in the next three to five years.

As the survey indicates, however, not all S&L service corporations are bent on being builders. The subsidiary of New Jersey-based City Federal Savings & Loan is an example. It started doing direct development in the early 1970s, but over the past three years the emphasis has switched to joint ventures.

"It allows us to associate with experienced developers in different parts of the country," said George Mikula, service corporation president. "I sleep better at night knowing I've got a professional partner." However, Mikula expects direct development of commercial property to grow, and the service corporation is about to enter the apartment syndication field.

AmeriFirst Federal in Miami has taken a different tack. Its service corporation emphasizes land development and lot sales to builders, with joint ventures a secondary activity. The corporation also builds some homes itself, but usually just to get a project started.

"We can't compete with small and medium-sized builders who can build faster and more efficiently than we can," said Thomas Bomar, president of AmeriFirst. But the service corporation is a large player in the development field. Last

Computer graphics: Steve Phillips

year it developed at least 1,000 lots all over Florida.

"I'm sure some land developers are not pleased that we're in the business," Bomar said. "But most builders like to work with us because it allows them to do more than they could on their own." He added that even some large developers have sought joint ventures with AmeriFirst. "They don't particularly need us, but they want to spread the risk."

It's the direct development and land acquisition activities of S&Ls that most concern builders such as George Freelove. His fears are shared by a number of builders in other parts of the country, particularly in Texas where, as in Florida, state-chartered S&Ls in recent years have acquired broad powers to invest in real estate. In California where state S&Ls now have unlimited authority to invest in real estate, most builders seem to have adapted to the situation. But not all.

"Our biggest competitors are not other builders but the S&Ls and their service corporations," said one California builder. S&Ls have outbid him for land and driven up land prices, he contended.

Fort Worth builder Herman Smith said that for a time S&Ls were bidding up land prices in his area too. "But then they got smart and stopped that. A few got burned."

Builders also fear that S&Ls will tie loans to joint ventures, but currently, at least, it appears few are doing so. "I hear about it," said Smith, a former president of NAHB, "but I don't know of any recent instances." He said NAHB investigated the issue a few years ago but found few cases. It turned out to be "a lot of smoke but little fire."

While some builders undoubtedly have been hurt by what they see as unfair competition from S&Ls doing real estate development, it appears there is more fear of what might happen in the future than widespread injury to date. George Freelove typifies the attitude of many builders.

"S&Ls haven't hurt my business yet," said Freelove, whose company, Laurel Builders, closed 260 homes last year. "But I don't know what will happen. I'm worried that they will offer below-market rate money (on projects S&Ls develop alone or through joint ventures) or demand that I joint venture with them before they will give me a loan."

Freelove also is concerned about increased competition from other builders who joint venture with S&Ls. Those builders "are able to offer better interest rates and more amenities than they could otherwise," he said. "With an S&L behind you, you've got an unlimited checkbook."

And there's the rub. Many builders like to joint venture with S&Ls while others like Freelove think lenders should be kept completely out of development. A survey by NAHB's economics division last summer found that 14 percent of responding builders had participated in a joint venture with a financial institution in the past year. Activity was concentrated among builders who start more than 25 units a year: 24 percent of them had joint ventured.

According to the survey, about a third of the builders who had joint ventured said they could have gotten straight debt financing at feasible rates and 20 percent said they could not. About half, though, said they weren't sure if they could have obtained straight debt financing at feasible rates with-

Source: Robert Charles Lesser & Co./Ernst & Whinney National S&Ls in Real Estate Survey

out joint venturing.

Although NAHB emphatically opposes lenders getting into development, it's clear that many builders have mixed feelings. Smaller builders may want to joint venture with a financial institution because it can help them compete with large builders, and larger builders may want to do it to share the risk.

Lenders may not become the onerous competitors many builders fear, but they clearly possess some big advantages. The biggest is "access to unlimited funds—federally insured deposits," said analyst Bortel. "That's a formidable leg up." That advantage allows service corporations to pay cash for land and get preferential loan treatment from the parent S&L, some builders charge.

Service corporation executives say it's true they can pay cash for land, but that they would rather do business like any other developer. They deny getting better interest rates on loans or driving up the price of land.

"We don't give our service corporation any special breaks on rates," said Bomar. "In fact, they get most of their financing elsewhere where rates are better. If S&Ls are irresponsibly accelerating land prices, I'm not aware of it." Cencibaugh of Home Savings and Ostic of Glendale Federal also deny getting favorable rates from the parent S&L, but Ostic said his service corporation can expedite the loan process—something other builders can't do. Both say they are able to pay cash for land and have done so at times.

"We think like builders," Ostic said. "We don't want to pay cash for land, but we can if the need arises. I've never outbid a developer (for land) and I've never tried to," he added. "If I did, the price could go too high and the project would n't be feasible."

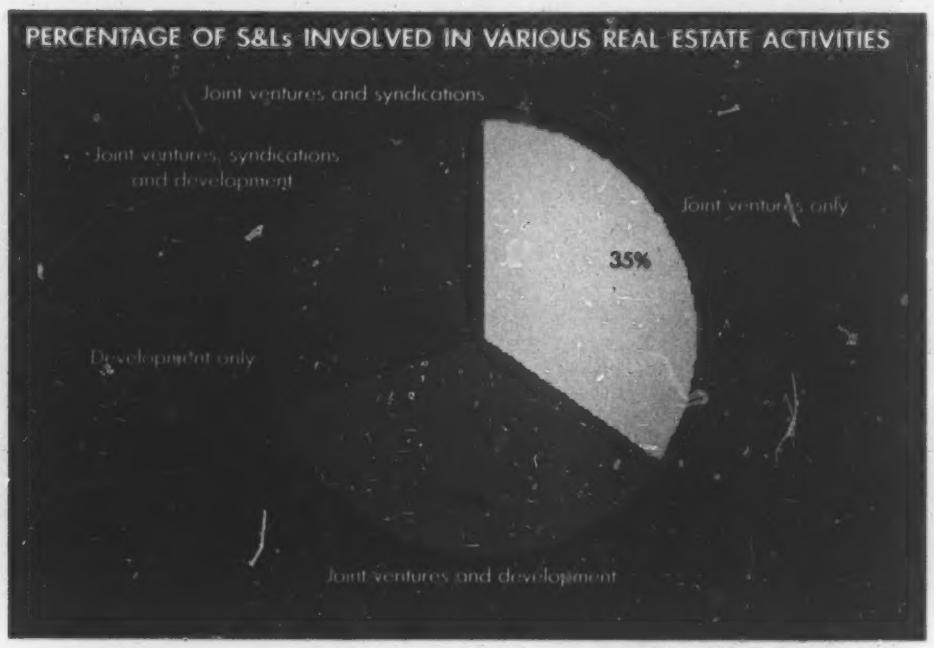
Consultant Leinberger is another who doesn't attach much weight to developer complaints that lenders are outbidding them for land and driving up land prices. "You hear that any time there's a new player. You heard that with the Canadians in the late 1970s and the REITs in the early 70s. But those who buy land unwisely generally develop land unwisely. They don't last."

Nevertheless, Ostic thinks builders have cause to resent S&Ls with their "deep pockets" coming into the business. "I'm sure some S&Ls are infringing on the business and that some builders feel squeezed out of the market."

Another S&L executive, Jerry Bills, president of Fidelity Federal Savings, Galesburg, Ill., agrees that builders have reason to worry "especially in California where S&Ls are buying so much land." Fidelity's service corporation joint ventures in California, so Bills knows what builders there face.

But oddly enough, few California builders are squawking —even though in 1983 state-chartered S&Ls were given unlimited authority to invest in real estate and state banks were given broader real estate powers. "Some builders are very concerned, but basically it's a non-issue," said Don Collin, a lobbyist for the California Building Industry Association. Builders didn't even organize to fight the bill expanding bank real estate powers.

The reason: "Most builders like to joint venture, and they figure the more competition among joint venture partners the better, Collin said. "Land development takes so


PERCENTAGE OF S&Ls INVOLVED IN VARIOUS REAL ESTATE ACTIVITIES
Joint ventures and syndications
Joint ventures, syndications and development
Joint ventures only
35%
Development only
Joint ventures and development

Source: Robert Charles Lesser & Co./Ernst & Whinney National S&Ls in Real Estate Survey

much time, is so expensive and so risky that smaller builders just can't do it any more." So when a California builder buys developed lots, he doesn't care whether he buys them from a financial institution or from another developer.

Things are different, however, in Texas where two years ago builders helped defeat an effort by state banks to expand their real estate powers. "California builders aren't complaining about S&Ls and banks getting into development because it takes years to get approvals there, so builders like to use financial institutions to warehouse land," said builder Herman Smith. In Texas approval time is much shorter, he said, so builders don't need institutions to carry land.

Although state-chartered S&Ls in Texas have a great deal of authority to invest in real estate, there currently is little danger that they could force builders to joint venture (or do without a loan) because alternative financing is available from banks. "That's why builders opposed the move to expand banks' real estate powers," explained Galt Graydon, lobbyist for the Texas home builders association. "If both your sources of money can do joint ventures, we can see builders being relegated to construction superintendents."

Most California builders, however, obviously aren't worried about that. Collin, for example, believes there is a major constraint on S&L involvement in development no matter how much they are permitted to do. That constraint is the IRS rule that gives them favorable tax benefits if they invest more than 60 percent of their assets in, primarily, housing loans. The bigger the percentage of assets the bigger the tax benefit.

"Besides getting into a field they know nothing about, S&Ls risk losing a tax advantage if they get in too far," Collin said.

It's beginning to look as if there are other constraints on S&Ls as well. The Federal Home Loan Bank Board primarily regulates federally chartered S&Ls, but through the FSLIC it also can reach out and touch state S&Ls because most are federally insured. The Bank Board has become increasingly alarmed about what it sees as growing risk-taking by S&Ls that could threaten the solvency of the FSLIC insurance fund (see December BUILDER, page 32).

As a result last summer the Bank Board proposed regulations clamping down on some lending activities of FSLIC-insured S&Ls. As proposed, institutions could invest no more than 10 percent of their assets or twice their net worth—whichever is greater—in real estate, service corporations and equity securities. Although only proposed, the regulations have had an effect.

"Since 1980 we've seen many S&Ls moving into real estate, but since last summer they've been moving out," Smith observed.

Still the trend is toward greater S&L involvement in development. Since 1980 both federal and state-chartered S&Ls, as well as banks in some states, increasingly have been able to invest more in real estate.

"It's a growing problem (for builders)," said Ginger Brown, who follows depository institutions for NAHB's government affairs division. "But I don't think it will be an issue much longer because it's going to happen. It already is happening. It's snowballing so fast in the new competitive environment that it will be very difficult to stop."

S&Ls were given broader investment and lending powers to help them compete with banks and survive the recession. S&Ls still are in "very poor shape" and need all the aid they can get—including real estate powers—to pull through, said consultant Leinberger.

"But there is no assurance that S&Ls will succeed in real estate development," Leinberger added. "They are at a major disadvantage in the way they attract and keep good people, and many don't have the right people in their real estate departments. Often they take a loan officer and make him a real estate expert." In addition, many S&Ls have a ponderous bureaucracy which prevents them from moving quickly, he said.

As Bomar, of AmeriFirst Federal in Miami, put it, "Most builders don't have to worry about competition from S&Ls because they know what they're doing and have been doing it for a long time."

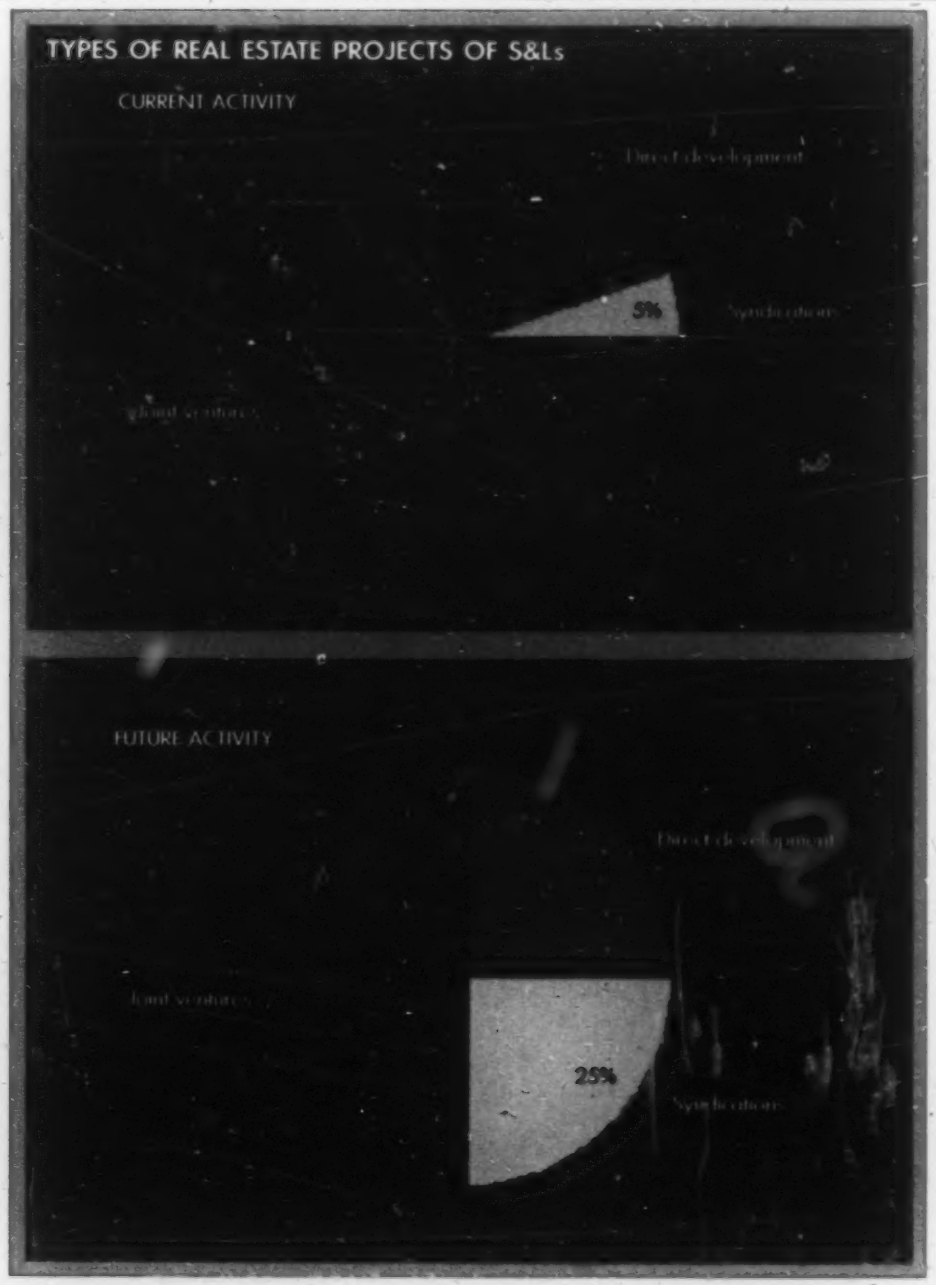
The increasing involvement of S&Ls in real estate will make financing an integral part of the development process, Leinberger predicted, and could lead to smoother housing cycles if financial institutions have more of a stake in development.

The effect on developers? "They will begin to be packagers. They will be less involved in the total development process." However, he said that developers will not be replaced "even if S&Ls are wildly successful. There is plenty of room for independent developers. It's a big industry, and S&Ls won't have a monopoly."

In fact, many lenders contend builders shouldn't complain too loudly about S&Ls getting into development because increasing numbers of builders are buying or starting their own S&Ls. Leinberger said that, too, is a trend, though not as significant as S&Ls getting into real estate.

Builders are making other inroads into the mortgage finance field that disturb lenders. "The days of market segmentation are over," observed James Christian, chief economist of the U.S. League of Savings Institutions. "All those lines are being crossed. S&Ls are in real estate, but builders are issuing builder bonds, and that worries lenders. Unless builders want to close it all down again, they'll have to learn to live with it."

Christian jokingly proposed a trade. "We'll promise not to hold raw land if builders promise not to do builder bonds."



Source: Robert Charles Lesser & Co./Ernst & Whinney National S&Ls in Real Estate Survey